

2016

INTERNAL CONTROL TOOL KIT FOR MUNICIPAL GOVERNMENTS

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INTRODUCTON

What is this thing called internal control? What's the big deal? Well internal controls are sometimes referred to "checks and balances". Think about your low fuel light in your vehicle. It's there as a control to prevent you from running out of gas. Controls in the workplace are there to protect assets and ensure objectives and compliance requirements are met. Every business and government should have controls in place to prevent and detect errors and irregularities. In big business there is the COSO (Committee on Sponsoring Organizations) framework that has been the golden standard for several years. Well the federal government has revised its internal control guidelines to mirror the COSO framework except for a few differences.

This Tool Kit is intended to assist cities in getting started on or reassessing your existing internal control system. In order to get the most benefit from the MTAS class on internal control in March steps 1 and 2 of this tool kit must be completed before the class.

Statutory Authority

Tennessee lawmakers in the 2015 legislative session passed a law requiring local governments to establish and adopt internal controls by June 30, 2016.

9-18-102. Internal controls -- Management assessment of risk. [Effective on June 30, 2016. See the version effective until June 30, 2016.]

(a) Each agency of state government and institution of higher education along with each county, municipal, and metropolitan government shall establish and maintain internal controls, which shall provide reasonable assurance that:

- (1) Obligations and costs are in compliance with applicable law;
 - (2) Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
 - (3) Revenues and expenditures are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets.
- (b) To document compliance with the requirements set forth in subsection (a), each agency of state government and institution of higher education shall annually perform a management assessment of risk. The internal

controls discussed in subsection (a) should be incorporated into this assessment. The objectives of the annual risk assessment are to provide reasonable assurance of the following:

- (1) Accountability for meeting program objectives;
- (2) Promoting operational efficiency and effectiveness;
- (3) Improving reliability of financial statements;
- (4) Strengthening compliance with laws, regulations, rules, and contracts and grant agreements; and
- (5) Reducing the risk of financial or other asset losses due to fraud, waste and abuse.

HISTORY: Acts 1983, ch. 129, § 1; 1998, ch. 664, §§ 1, 2; 2008, ch. 750, § 1; 2015, ch. 112, § 1.

The Comptroller's Office has recently issued its revised *Internal Control and Compliance Manual for Governmental Entities and Other Audited Entities in Tennessee, December 2015*. The new manual follows the framework of the Standards for Internal Control in the Federal Government, issued by the U.S. Government Accountability Office more commonly called the Green Book and is more principle based than specific procedures. State statutes require the Comptroller's Office to prescribe uniform accounting systems for entities which handle public funds and those same statutes require officials to adopt and use the systems designated by the Comptroller's Office.

Management is responsible for designing and implementing a system of internal controls and there is no "one size fits all" system for all cities to use. Many cities will have very similar objectives and policies but the processes and procedures designed to adhere to policies and achieve objectives will be vastly different. A city with three employees working in city hall cannot process payments the same as cities with an entire department devoted to accounts payable.

Definitions

Terminology is important in understanding the complex and multi leveled topic of internal controls. Let's define several terms that will be used constantly as we work on our internal controls.

There are several references to oversight responsibilities in both the state manual and the Green Book. The state has defined the levels of oversight responsibilities as:

- Governing body refers to the county commission, city council, board of directors, or similar authorities.
- Oversight body refers to an appointed body designated to perform oversight at the direction of the governing body (*most of the Green Book's references to oversight bodies will actually mean governing body in most municipal governments, unless a separate board oversees and sets policy for certain operations such as a utility board or a school board*).
- Management refers to elected officials (mayors and county office holders) or employees who have direct responsibility for the day-to-day operations of the entity including the implementation of internal controls. (city managers, city administrators, finance officers, department heads)

Internal control - a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. These objectives and related to risks can be broadly classified into one or more of the following three categories:

- Operations – effectiveness and efficiency of operations
- Reporting – Reliability of reporting for internal and external use
- Compliance – Compliance with applicable laws and regulations

Internal controls are comprised of plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. They are a series of actions that occur throughout an entity and are an integral part of the operational processes. People make it work and Management is responsible for an effective internal control system and its monitoring.

Internal Control System – a continuous built-in component of operations, effected by people, that provides reasonable assurance that objectives will be achieved.

Objectives – goals set by management. Internal controls relate to objectives for Reporting internal and external financial and non-financial data; compliance with various rules, regulations, laws and policy; and operational effectiveness and efficiency.

Policies – A rule written to establish a structured work environment. The following are examples of policies:

- Collection policy – Issue a pre-numbered receipt for all collections
- Deposit policy – Deposit all monies intact and within 3 business days
- Travel policy – The city has adopted the State of TN travel regulations

Procedures – a process designed to ensure adopted policies are being followed thus achieving the established objectives.

The Green Book

While preparing this Tool Kit I came across 3 articles written by a nationally known speaker, Leita Hart-Fanta. She has a great sense of humor and a way of explaining government rules and regulations that actually make sense. I highly recommend you read these three articles before starting on your internal control assessment and design. Keep in mind the State of Tennessee has adopted the Green Book as the required format for internal controls. The only part of the Green Book that is not required is the 17 principles, which the state has deemed optional:

- http://yellowbook-cpe.com/internal-controls-a-la-gaos-green-book.html?doing_wp_cron=1453825071.9896159172058105468750
- http://yellowbook-cpe.com/chapter-2-grounding-the-green-book-in-reality.html?doing_wp_cron=1453826197.0198199748992919921875
- <http://yellowbook-cpe.com/chapter-3-the-face-of-the-cube.html>

The summary below will give you a short overview of internal controls and the Green Book:

..... GAO

What is the Green Book?

Important facts and concepts related to the Green Book and internal control

..... RELATED TO GAO-14-704G

What is internal control?

Internal control is a process that helps an entity achieve its objectives. It is the first line of defense in safeguarding public resources.



Standards for Internal Control in the Federal Government, known as the Green Book, is the document that sets internal control standards for federal entities.

How does internal control work?

Internal control helps an entity



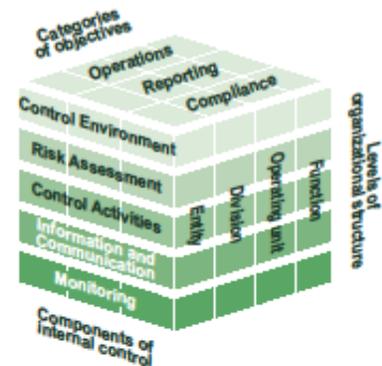
Who would use the Green Book?

Here are some of the people who use it

-  Someone who manages programs for federal, state, or local government
-  Someone conducting a performance audit or a financial audit
-  Someone responsible for making sure that personnel follow policies and procedures related to any and all job responsibilities

How is internal control organized?

Standards for Internal Control in the Federal Government (the Green Book) is organized by the five components of internal control, and apply to staff at all organizational levels and to an entity's operations, reporting, and compliance objectives.



What makes up the 5 components?



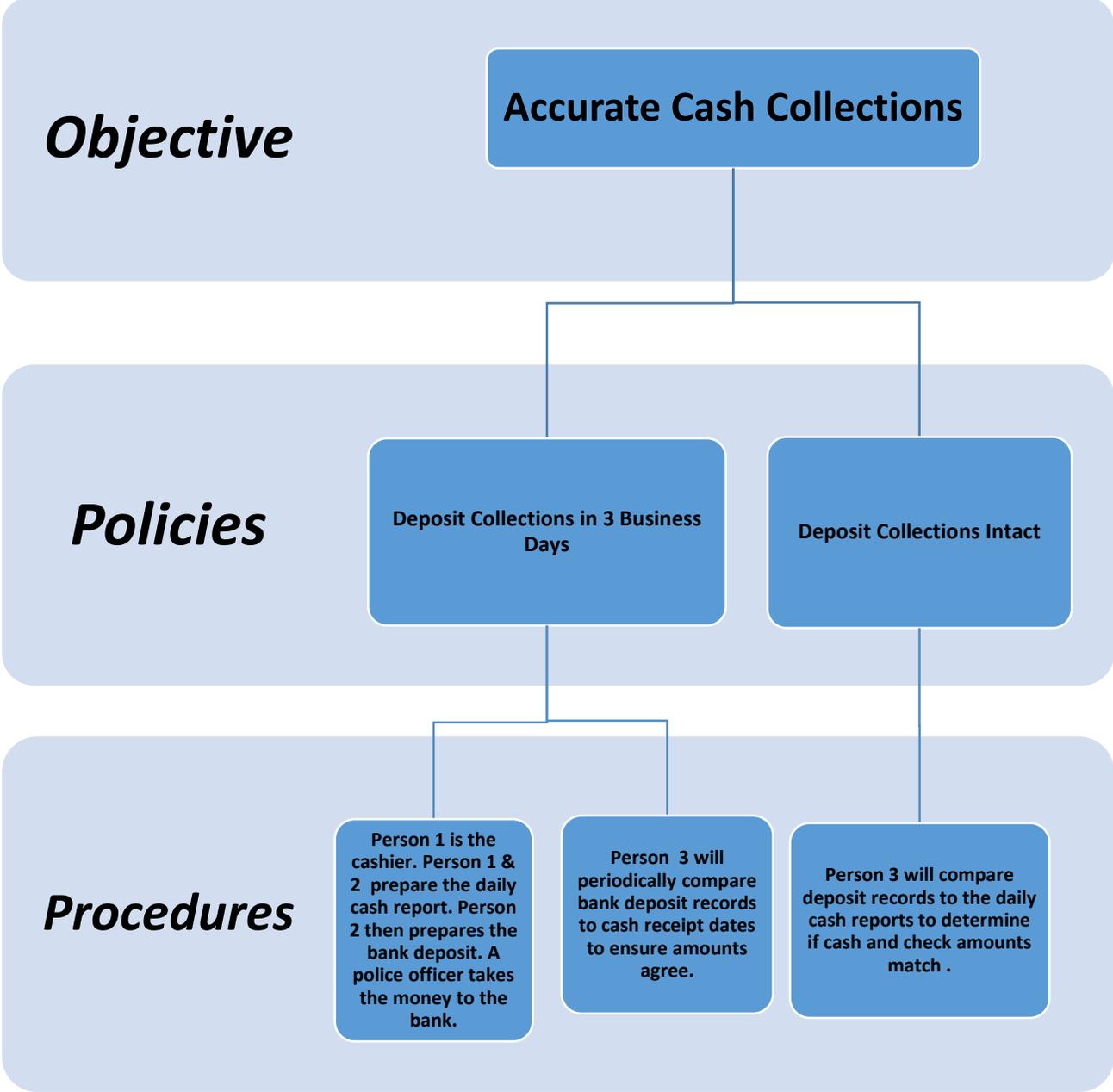
Principles

Each of the five components contains several principles. Principles are the requirements of each component.

Attributes

Each principle has important characteristics, called attributes, which explain principles in greater detail.

Sample Internal Control Documentation



Note: Actual procedures will be in much more detail, including each step and by whom it is performed through the entire cycle of the transaction.

Let's Get Started

Step 1

The first step in designing an internal control system is performing an assessment of the city's operations. To start we are only going to focus on the financial and compliance objectives of internal controls so it is important for each city department head to participate in the assessment. Internal controls related to operational processes are also an objective of internal controls however we are not addressing those at this time. An internal control system is a continuous group of processes and procedures that are an integral part of any government or business. It is ongoing and constantly being monitored and changed. Once a city gets the financial and compliance areas started then the department heads may want to start adding the operational objectives to see how they might set policies and procedures to achieve operations objectives.

Let's start with the questionnaire included in this tool kit. The questions serve as a good starting point for your assessment of city financial and compliance processes. We have significantly reduced the number of questions in an effort to only focus on the major areas that will apply to almost all cities. The CMFO or Designated Chief Accounting Officer is generally the point person in the city for the internal control system. There is a section for the governing body that should be reviewed by the city manager, city administrator, mayor and elected officials. It is important for upper management to express their expectations that all city department heads get involved in order to comply with the new state law. The questionnaire in its shortened version will involve the police chief if the court clerk works in the police department and the utility manager. A much longer version of the questionnaire can be obtained upon request and it will include the fire department, public works, and parks and recreation, water utility, sewer utility, gas utility and sanitation departments.

Step 2

Once areas with a significant risk or impact of a financial or compliance nature have been identified the process currently followed for that area or transaction should be documented in great detail. It is important to document exactly who does what and when in the process. This part is very important! These processes and procedures should be written as if you are writing instructions for someone to follow and perform the same function exactly like it is currently being done. In order to make this a workable project it is only intended to get cities started so in that effort we have more or less assessed the risk as high on the following areas triggering the need to develop internal controls and document the current procedures being used to process these functional areas. Some of the significant areas that most cities should have include:

Financial & Compliance

Financial

- Collections/ACHs
 - General Controls
 - City Courts
 - Property Tax Collections
 - Utility Billings and Collections
 - State Shared Revenues
- Disbursements/Drafts
- Assets
 - Reconciliation of Accounts
 - Cash and Investments
 - Safeguarding of Capital Assets/Inventories

Compliance

- Financial Matters
- Obligations/Debt Management
- Water and Sewer State and Federal Quality Standards
- State Required Police Procedures
- Grants Management

These are just a few to start with as there may be other major sources of revenue in some cities. There are examples of how to document processes included in this tool kit. All cities will be different based on staff, computer systems, volume, etc.

There is a short simple explanation of How to Design an Internal Control System at this link http://www.ehow.com/how_5120417_design-internal-control-system.html

Along with the article there are several other links that may help you get ideas on how to document your processes.

Step 3

Analyze each process or procedure as it is being performed and compare to the internal control policy or state requirements for that particular process.

Determine if there are weaknesses and make changes in the process or procedure as necessary to strengthen the control. Inform all employees of the new and improved procedure and document it in your internal control manual.

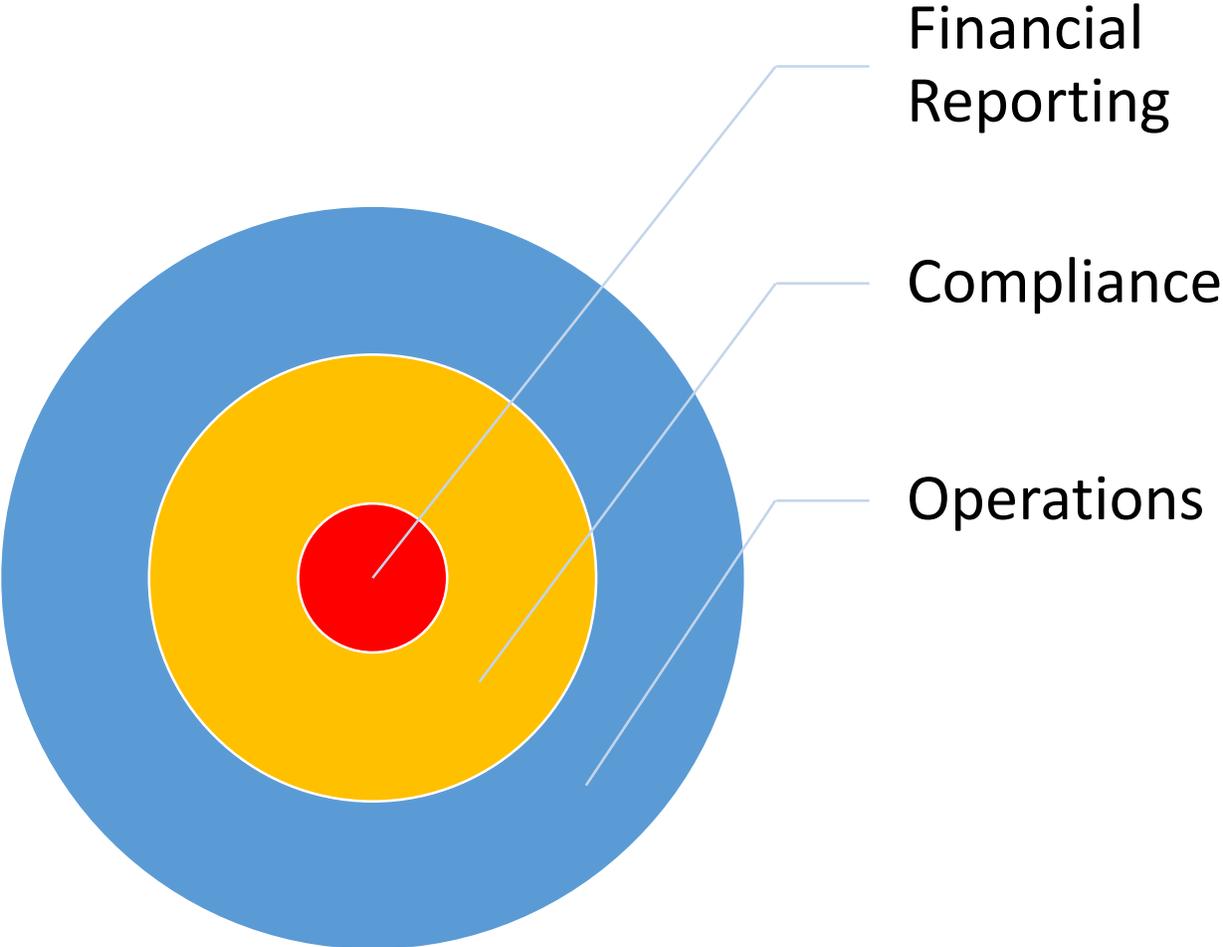
There is another short How to Write an Internal Control Procedures Manual at this link http://www.ehow.com/how_7213105_write-internal-control-procedures-manual.html

Although some of the examples may be for non-governmental businesses the theory is the same.

It is important to use the old Comptroller City Manual to help you identify how transactions are supposed to be processed. This will identify weakness in your procedures that need to be improved or if the city is very small compensating controls must be developed and put into place.

This step is what we plan to work on in the MTAS MAP class in March. However if you go ahead and work on it prior to the class you will be ahead of the game and well on your way to having internal controls developed that can be adopted by June 30, 2016.

ONLY A SMALL BIT OF THE BIG CHEESE



Let's think about everything we have read, hmmm. See the bullseye, well that is going to be the big focus for our internal controls for now. Any business must have accurate, timely and complete financial information in order for management to make effective decisions. Governments also have compliance requirements from a number of sources which can have significant financial impacts on public funds if not followed. So the ring next to the bullseye represents the compliance objective of internal controls. In this tool kit and the upcoming class MTAS is only taking a few pieces of these objectives to get you started. The internal control system is much much more than we have illustrated here. It is a system that must be customized to every city and it must be worked on continually and it must be done by people who are involved in the procedures. A sample internal control manual will be e-mailed to all class registrants.

**FINANCIAL AND COMPLIANCE INTERNAL CONTROL ASSESSMENT
QUESTIONS FOR MUNICIPALITIES (Reduced version distributed as part of
MTAS Internal Control Took Kit for Municipal Governments)**

NOTE: These questions are posed as prompts to assist the officials and management of municipalities in asking appropriate questions to identify weaknesses during the assessment of financial and compliance internal control procedures. This should not be viewed as an all-inclusive list of questions.

INTERNAL CONTROL ASSESSMENT FOR ELECTED OFFICIALS AND APPOINTED

1. Is there an organization chart that clearly defines lines of authority and responsibility for the City?
2. If not, are such lines clearly established and understood by all employees?
3. Are all transactions of major importance approved in minutes of the governing body?
4. Are all minutes of the governing body (in final form) in the permanent records of the governmental unit and properly signed?
5. Do the minutes adequately reflect the action of the governing body?
6. Are they clear as to intent and substance?

Charter, Municipal Code and Ordinances

1. What kind of charter does the city have?
 - a. General law mayor aldermanic?
 - b. General law manager-commission?
 - c. General law modified council-manager?
 - d. Private act? (Private Acts, chapter)
 - e. Home rule?
 - f. Metro?
2. If you have a private act or home rule charter, does the City have a current charter compilation that includes all the amendments to the charter?
3. Is the charter readily available and accessible to city officers, employees and the public?
4. If you have a private act or home rule charter, is the charter reviewed on a frequent regular schedule for the purpose of removing obsolete provisions and inserting needed provisions?

5. Is the charter clear and unambiguous relative to:
 - a. Elections of officers?
 - b. Filling of vacancies in elective office?
 - c. Quorum and voting requirements on ordinances, resolutions and motions?
 - d. Which city personnel are officers and which are employees?
 - e. The relative powers and duties of the mayor (or city manager) and the board or commission?
 - f. Salary and/or other compensation of officers?
 - g. Recall or method of removal, if any, of officers?
 - h. The property rights, if any, of employees in their jobs?
 - i. The procedural "hoops," if any, for the discipline, including termination, of employees?
 - j. The due and delinquency dates for property taxes?
 - k. The procedure for the collection of property taxes?

6. Does the City have a current municipal code?
7. Was the municipal code properly adopted?
8. Is the municipal code readily available to city officials, employees and the public?
9. Is the municipal code reviewed on a frequent, regular basis for the purpose of removing obsolete provisions and inserting needed ones?
10. Is a certain officer or employee assigned the definite responsibility of insuring that ordinance adoption procedures are rigorously followed?
11. Is a certain officer or employee assigned the responsibility of preserving a record of such ordinances?
12. Is that person, if any, thoroughly familiar with ordinance adoption procedures?
13. Is there a definite prescribed place in the City's offices for the City's ordinances to be kept?
14. Are ordinances filed and preserved by some systematic method, such as by number, date, subject, etc.?

Municipal Records in General

1. Does the City have a definite prescribed place in City offices for the City's records to be filed and preserved?
2. Is a certain officer or employee assigned the definite responsibility for City records filing and preservation?
3. Does the City have a systematic filing system that is understandable to City officers, employees and the public?
4. Are the City's records easily and readily accessible to City officers, employees, and the public?
5. Is the person responsible for records filing and preservation familiar with, and does he or she, follow the Open Records Law?

Financial

1. Does the board receive monthly financial reports?
2. Are the reports explained to the board?
3. Is a budgetary report included in the information?
4. Does the finance officer reconcile the bank accounts monthly?
5. Is the board notified when cash is running dangerously low?

Municipal Meetings

1. Are regular meetings of the City governing body held at the times and places prescribed by the City charter, code or ordinances?
2. Are special meetings called and held in accordance with the City charter?
3. Is adequate notice of both regular and special meetings given to the public?
4. Is the person who is responsible for general supervision of the City familiar with the Open Meetings Law?
5. Are minutes clearly reflecting the votes and other important actions of the governing body?

Municipal Court

1. Does the City have a municipal court?

2. If the City does not have a municipal court, does it have an agreement with the sheriff and the general sessions court to enforce the City's municipal ordinances?
3. If the City has a municipal court, does it exercise:
 - (a) Municipal ordinance jurisdiction?
 - (b) General sessions (criminal) court jurisdiction?
4. Is the distinction between the two forms of jurisdiction, ordinance and criminal, clear to the municipal court judge?
5. Is the distinction between the two forms of jurisdiction, ordinance and criminal, clear to the municipal court clerk?
6. Is the municipal court judge an attorney?
7. Does the municipal court hold regular sessions?
8. Is there a definite program in place to require offenders to appear in court, and to punish them if they do not?
9. Are complete and accurate records of the proceedings of the municipal court kept?
10. Are reports filed with state departments by the court clerk in a timely manner?
11. Are fines and taxes sent to state departments by the court clerk in a timely manner?
13. Are regular frequent comparisons made between fines and costs levied and fines and costs collected?
14. If there is a difference between fines and costs levied and fines and costs collected, is there a program in place to collect delinquent fines and costs?

City Attorney

1. Does the City have a City Attorney?
2. Is he or she on a retainer?
3. Does the person responsible for general administration of the City and the City Council regularly consult the City attorney about questionable City practices or procedures?
4. Is the City attorney generally available, and does he or she respond to questions, in a timely manner?

5. Does the City attorney "pass on" ordinances, contracts, and other legal documents of the City?

City Personnel

1. Are City employees responsible for handling money bonded in a sufficient amount?
2. Are vacation and sick leave policies definite and certain?
3. If employees retire, quit, or are terminated, is it clear whether or not they are entitled to pay for unused vacation and sick leave?
4. Does the City have written personnel regulations and policies?
5. Whether or not the City has written personnel regulations, is the chain of command well-understood by both City officials and employees?
6. Is it clear in such policies to which classes of employees and/or officers they apply?
7. Do such personnel policies conform to the City charter?
8. Are such policies followed with respect to all employees and officers to which the policies apply?
9. Is the person responsible for personnel administration generally well-versed in the:
 - a Fair Labor Standards Act?
 - i) General City employees?
 - ii) Fire and police employees?
 - b Americans with Disabilities Act?
 - c State and federal laws governing employment discrimination?
10. Does the City impose limitations upon the political activities of its employees?
11. Do such limitations with respect to police officers and firemen apply only to on-duty activities?
12. Does the City have written policies governing the use of City vehicles by City employees?
13. Does the City have a travel expense reimbursement policy for employees and officials?

Financial

Collections/ACHs

General Controls

1. Are pre-numbered receipts issued for each collection at the time the funds are received?
2. What types of payment are accepted? Cash, Checks, Money Orders, Credit Cards?
3. Do the receipts note an appropriate revenue source or revenue account from the chart of accounts?
4. Are checks received restrictively endorsed (stamped "For Deposit Only") immediately upon receipt?
5. Are all receipts accounted for including voided receipts?
6. Are collections deposited in 3 working days from the time they were received?
7. Is the deposit made in the same amounts as it was collected (intact with the same amount of cash vs checks as collected)?
8. Are duties properly segregated in the following areas:
 - a. Collecting
 - b. Depositing
 - c. Recording
9. Does someone other than the cashier make deposits?
10. Are actual deposits checked against records by someone other than cashier or depositor?
11. Are proper controls in place to prohibit cashing any checks payable to the municipality?
12. Are proper controls in place to prohibit employees cashing checks in the office?
13. Are checks identified on the deposit slip by maker and amount?
14. Are state funds deposited directly to the municipal's bank accounts by ACH?
15. Is the receiving function centralized to the maximum extent possible?
16. Is there a reconciliation between the daily check out reports and the deposits made by someone independent of the process?
17. Do all transfers between bank accounts require the approval of a second person?
18. Are licenses and permits pre-numbered and properly accounted for?
19. What changes can be made or what compensating controls can be implemented to mitigate shortcomings noted through this assessment?

City Courts

1. Do officers issue pre-numbered uniform traffic citations? 2-part, 3-part, 4-part?
2. Is a municipal court docket (a listing of all cases heard in municipal court) is maintained and that dispositions (judgments) are recorded on the court docket?
3. Is the person responsible for maintaining the court docket posting the violation to the court docket and filing the ticket numerically?
4. Is the person responsible for maintaining the court docket posting receipts and disbursements of funds, costs, and judgments to the dockets?
5. Is physical control maintained over unissued traffic citations?
6. When pre-numbered receipts are issued, are the citations marked as paid as well?
7. Is the receipt number noted on the citation and vice versa?
8. Are fines and costs assessed recorded in the municipal dockets after judgement is rendered?
9. Are receipts issued for all seized property?
10. Does someone create a mail log of all collections through the mail or drop box?
11. What changes can be made or what compensating controls can be implemented to mitigate shortcomings noted through this assessment?

Property Tax Collections

1. Has the legislative body passed an annual tax levy by ordinance?
2. Are pre-numbered receipts issued for each collection at the time the funds are received with a copy given to the taxpayer?
3. At the time of collection, is the tax receipt marked paid, dated, and signed by the person collecting?
4. Are daily tax collections summarized in total by tax levy year on the daily collection report?
5. Are interest and penalties on delinquent taxes being charged?
6. Have all adjustments to the tax assessments been properly authorized in writing by the tax assessor's office?
7. Have all releases, rebates, refunds, and taxes charged off been authorized in the minutes of the governing body?
8. Have tax relief records been compared to the city's previous year and to the county's records?
9. Are taxes receivable reconciled periodically? How often and by whom?
10. Are uncollected property taxes being turned over for collection on a timely basis? (April 1st in the year after levy).

11. Has the city taken any real action to collect the delinquent taxes filed or are they just filing and hoping the taxes will be paid?
12. Does the tax attorney follow through on tax suits in a timely manner?
13. Has a delinquent property tax sale been held within the last 5 years?
14. Is an appropriate receivable recorded on the fund's books for the amount of the estimated levy as of the tax lien date, January 1?
15. At least annually, is the property tax receivable balance per the general ledger reconciled to the total amount of unpaid accounts per the tax roll and amount of unpaid taxes?
16. Is a delinquent tax notice posted in the local newspaper at least one month before the delinquency date?
17. Are duties properly segregated in the following areas:
 - a. Collecting
 - b. Billing
 - c. Receivables
18. What changes can be made or what compensating controls can be implemented to mitigate shortcomings noted through this assessment?

Utility Billings and Collections

1. Are pre-numbered receipts issued for each collection at the time the funds are received?
2. Is the utility system of billing and collections integrated with the city general ledger operations?
3. If not, how does the city ensure that all collections made are entered into the city's general ledger system? **This is particularly critical if pre-numbered receipts are not issued in sequential order for #1 above.**
4. Are rates set to cover the full cost of the services provided, including depreciation?
5. Are the utility operations in sound financial condition?
6. Does the city provide any free utility services?
7. Are appropriate late charges collected?
8. Does the city require separate meters for each customer?
9. Does the city have strict cut-off policies in place and in writing that are acted upon?
10. Does someone reconcile the utility accounts receivable control account in the general ledger system with the utility accounts receivable subsidiary ledger?

11. Does the finance department have a write-off policy in place for the removal of receivables from the financial records?
12. When adjustments to accounts are required, are they approved by the governing body or their designee? *Person collecting payment or creating bills should be prohibited from adjusting bills without a second approval.*
13. Does the municipality charge a deposit or non-refundable fee to turn utilities on for new customers?
14. Who receives and records deposits for services?
15. Who opens the mail with customer payments?
16. Who serves as the back-up if the person referred to in #15 above is not available?
17. Does someone create a mail log of all collections through the mail or drop box?
18. Are duties properly segregated in the following areas:
 - a. Collecting
 - b. Billing
 - c. Receivables
19. What changes can be made or what compensating controls can be implemented to mitigate shortcomings noted through this assessment?

State Shared Revenues

1. Has your city considered conducting a census?
2. Does/Should your city receive any corporate excise tax if any banks or related entities are located within your corporate boundaries?
3. Is your city entitled to a mixed drink or alcoholic beverage tax?
4. Is mixed drink tax being remitted to the school system if required by law?
5. Does your city operate a city school system?
6. If so, are all local school taxes shared as required by law?
7. Are state street aid monies being transferred to the fund in a timely manner?
8. Is a situs report requested from the Department of Revenue at least annually?
9. What changes can be made or what compensating controls can be implemented to mitigate shortcomings noted through this assessment?

Disbursements/Drafts

1. Are pre-numbered checks issued for all disbursements?
2. Are all voided checks accounted for and properly defaced?
3. Is the practice of signing blank checks prohibited?
4. Is the supply of unused checks safely stored to protect against unauthorized use?
5. Do all checks require two signatures?
6. Do drafts posted to bank accounts require two signatures as well?
7. Does the office use signature stamps or electronic signors?
8. If so, is access restricted to these items?
9. Is the practice of making checks payable to "CASH" prohibited?
10. Are invoices approved for payment by someone other than the check preparer prior to processing payments?
11. Are transfers between funds approved by the city council?

What changes can be made or what compensating controls can be implemented to mitigate shortcomings noted through this assessment of disbursements?

Assets

Reconciliation of Accounts

1. Are bank accounts reconciled to the general ledger on a monthly basis?
2. Is this reconciliation performed by someone who isn't involved with making deposits or writing checks?
3. Are reconciling items noted in the bank account reconciliation addressed and remedied within 2 monthly cycles?

Cash and Investments

4. Who has access to the city's investments?
5. Are all bank accounts and investments maintained in the city's name?
6. Do withdrawals or liquidations of city investments require two signatures?
7. Has the municipality ensured that all accounts are appropriately collateralized with the financial institutions?

8. Has the municipality ensured that all accounts in banks collateralizing with the State Collateral Pool have classified the city's accounts as "public" in the banks records.
9. Are cash on hand accounts reconciled daily to the amount of monies on hand?
10. Does the municipality use petty cash funds?
11. Are actual receipts required and retained for reimbursements of petty cash monies?
12. Is the person receiving reimbursement required to sign a receipt?
13. Are all persons handling cash and other assets bonded?
14. Have all bank accounts been approved by the city council?
15. Is all cash maintained on hand and collections not yet deposited kept in secure locations?

Safeguarding Capital Assets/Inventories

16. Is all seized property, including cash, inventoried and kept in a secure location?
17. Has someone been assigned the responsibility of accounting for the various inventories of the municipality?
18. Are detailed inventory records maintained?
19. Is a physical inventory conducted annually?
20. Do the inventory records include property and equipment of a sensitive nature in addition to capital assets?
21. Are proper safeguards in place to prevent theft or loss of assets?
22. Are sales of surplus property in accordance with state law?
23. Does the city have procedures in place for disposing of property in compliance with state law?

What changes can be made or what compensating controls can be implemented to mitigate shortcomings noted through this assessment of Assets?

Compliance

Financial Matters

1. Are financial records maintained in sufficient detail to adequately describe the operations of the municipality?
2. IS the accounting system used by the municipality in compliance with minimum standards of the Comptroller's Office including: the use of fund accounting? The use of a double-entry system?
3. What changes can be made or what compensating controls can be implemented to mitigate shortcomings noted through this assessment?

Obligations/Debt Management

1. Is adequate planning performed and projections made to ensure incurring debt is necessary and affordable for the municipality?
2. Has the governing board approved debt issues and is that approval documented in the minutes?
3. Is the municipality in compliance with debt covenants, if any?
4. Are efforts made to obtain the best borrowing rates on debt?
5. Are checks and balances in place to ensure bond and note proceeds are used for their intended purpose?
6. Are adequate reserves maintained to make principal and interest payments on debt?
7. Does the municipality make debt payments on time?
8. Has the municipality been at financial risk for not making principal and interest payments?
9. Are interfund loans pre-approved by the State Comptroller's Office?
10. Were repayment plans of interfund loans established?
11. Were all debt issuances made in compliance with state law?
12. Do the minutes of the governing body reflect adequate information on bond issues?
13. Are separate bank accounts and accounting records maintained for each bond issue if required by the bond resolution?
14. Are the investment and disbursement practices for bond issues in compliance with arbitrage laws and/or regulations?

15. Did the city receive prior approval from the Director of State and Local Finance before the issuance of notes?
16. Does the city maintain a master list of debt payment requirements by month and fiscal year the payments are due?
17. What changes can be made or what compensating controls can be implemented to mitigate shortcomings noted through this assessment?

Water and Sewer State and Federal Quality Standards

1. Is the city following all environmental rules as stated by Tennessee Department of Environment and Conservation (TDEC), Division of Water Resources? (These rules address water quality, chemical usage, operator certification requirements, and to a certain extent, financial requirements).
2. Is your utility following the rules as set by the Comptroller's Office for proprietary fund record maintenance and utility financial support?
3. Is your utility in compliance with the TOSHA Regulations and utility risk insurer?
4. What changes can be made or what compensating controls can be implemented to mitigate shortcomings noted through this assessment?

Police Departments

1. Is all major equipment inventoried and in good condition?
2. Is there a fleet replacement schedule?
3. Are all the city's police officers POST commission certified?
4. If some officers are not certified, does the person responsible for police administration justify the legal reason they are not certified?
5. If the city uses reserve or auxiliary police officers, are they subject to clear, definite written policies and procedures that define their function and role?
6. Is the evidence room properly secured and restricted?
7. Are employees required to log in and out and state their purpose for accessing the evidence room?

8. Does the police department conform to the peculiar overtime regulations prescribed for police departments under the Fair Labor Standards Act (FLSA)?
9. Does the city maintain its communication and dispatch center?
10. Are calls for service and incident reports continually evaluated to ensure that sufficient manpower is provided to cover as many conditions as possible to maximize citizen safety?
11. Are accountability systems in place which are consistent with the agency's goals and objectives?
12. What changes can be made or what compensating controls can be implemented to mitigate shortcomings noted through this assessment?

Grants Management

1. Has the municipality checked with state and federal agencies, development districts, and other sources, etc., to see what federal and state grants might be available?
2. Does the city make a practice of considering the matching costs as well as any long-term cost commitments that will be required when soliciting grant funds?
3. Does the city make a practice of considering the need for the service and calculating operating costs associated with the grants, including depreciation on utility facilities funded with grant monies?
4. What changes can be made or what compensating controls can be implemented to mitigate shortcomings noted through this assessment?

Example Cash Receipt Cycle Procedures

Receptionist

1. All mail received at this location is opened by the receptionist. Mail is received twice a day and is processed soon after each delivery.
2. Checks received in the mail are stamped with a restrictive endorsement and segregated by program. Supporting documentation is retained and paper clipped to the back of each check.
3. A check log is kept by the receptionist. The payer, check number, check date and amount are logged for each check.
4. The original log is forwarded directly to the Senior Staff Accountant for reconciliation with the associated deposit.
5. A copy of the log is forwarded with the checks and supporting documentation to the Staff Accountant for further processing.

Staff Accountant

6. The Staff Accountant compares the check log with the checks received from the Receptionist.
7. Daily the Staff Accountant prepares a CR in the TAMI system for the checks. This process includes the coding of revenue. All Agency MFASIS Codes on TAMI were initially established and continue to be maintained by the Senior Staff Accountant. These codes determine how revenue will be recognized in MFASIS.
8. Staff Accountant forwards the checks, copy of the check log and all supporting documentation to the Senior Staff Accountant.
9. Any checks that have not been deposited are secured in the safe at the end of the day.

Senior Staff Accountant and Staff Accountant

10. The Senior Staff Accountant reviews the CR in TAMI for correct clerical entry and proper coding based on supporting documentation, enters the second level of approval and prints the deposit slip. A deposit is done once a day.
11. The Senior Staff Accountant hands the bank bag with the checks and deposit slip to the courier for deposit. The bank receipt ticket is returned to the Staff Accountant with the empty bank bag either the same day or the next morning.
12. Based on bank receipt information, the Staff Accountant completes the validation date portion of the CR in TAMI.
13. The Senior Staff Accountant reconciles the check log to the deposit the day of TAMI acceptance or the day after. Any variance is pursued.
14. Cash receipt supporting documentation is forwarded to another Staff Accountant for processing related to accounts receivable on the subsidiary system.

**TOWN OF EVERYWHERE
PROPOSED SEGREGATION OF FINANCIAL-RELATED DUTIES**

Duties	City Clerk	Utilities Clerk	Rev/Exp Clerk	City Mgr	CMFO/Recorder
Utility Billing & Collection:					
Perform system maintenance, such as rate changes, etc.	X				
Maintain customer account information		X			
File and maintain customer account information in City Hall records	X				
Process utility service work orders		X			
Process utility deposits information		X			
Receive utility deposits			X		
Enter meter readings		X			
Run billing		X			
Review billing register edits for unusual readings or bills and resolve errors		X			X
Print and mail bills		X			
Receive/ record customer payments (mail & counter)	Back up		X		
Post utility activity to the general ledger			X		
Dual balancing of cash drawer daily		X	X		
Make daily deposit	X				
Process utility deposit refunds		X			
Sign and mail deposit refund checks	X				
Process late/cut-off notices		X			
Approve account adjustments	X			X	
Enter account adjustments in computer system		X			
Print daily and monthly reports		X			
Review daily and monthly reports	X				X
Reconcile utility accounts receivable monthly and investigate any discrepancies					X
Payroll Processing:					
Perform system maintenance, such as pay, deduct codes					X
Maintain employee information on computer			X		
File and maintain employee information in City Hall records	X				
Enter time sheet and leave information each pay period			X		
Approve leave requests				X	
Calculate payroll and print payroll register			X		
Review time sheets and payroll register for proper pay	X				
Prepare payroll checks			X		
Approve and sign payroll checks	X			X	
Distribute signed payroll checks	X				
Print payroll reports, post to general ledger			X		
Make payroll tax deposits	X				
Prepare checks for other payroll liabilities			X		
Approve and sign checks for other payroll liabilities	X			X	
Prepare and file Federal, State and other payroll reports, such as 941s, W-2s, Unemployment, Workers Comp	X				
File and maintain copies of payroll reports in City Hall	X				
Review payroll registers and regulatory reports and investigate any discrepancies					X

**TOWN OF EVERYWHERE
PROPOSED SEGREGATION OF FINANCIAL-RELATED DUTIES**

Duties	City Clerk	Utilities Clerk	Rev/Exp Clerk	City Mgr	CMFO/Recorder
Purchasing and Payments:					
Receive requests for purchases			X		
Prepare purchase orders			X		
Ensure budget appropriation is available			X		
Ensure competitive bidding compliance				X	
Approve purchase orders				X	
Enter approved purchase orders / post to general ledger			X		
Obtain signed receipt of delivery or goods and services to ensure goods or services were satisfactorily provided			X		
Enter invoices / post to general ledger			X		
Authorize invoices for payment consideration by the City Council	X			X	
Prepare claims list for City Council approval			X		
Prepare checks for payment after Council approval			X		
Compare checks to approved claims list	X				
Sign checks to vendors	X			X	
Prepare and file annual 1099s	X				
File and maintain purchase documents in City Hall records	X				
Review claims list, account postings and investigate any discrepancies					X
Municipal Court:					
Process tickets and complaint forms		X			
Maintain and prepare court dockets		X			
Receive fines, bonds and other court payments			X		
Record payments in municipal court system		X			
Process court warrants		X			
Balance court receipts to daily posting report	X		X		
Make daily deposits	X				
Attend court and record judicial actions	X				
File and maintain court documents in City Hall records	X				
Prepare refund checks, CLEET, and other court related payments			X		
Sign and mail checks					X
Make monthly transfer to General Fund					X
Prepare and file monthly reports with the State		X			
Other Revenue and Receipts Processing:					
Receive payments for miscellaneous revenues and receipts, such as fees, grants, licenses, permits, etc.			X		
Prepare multi-copy receipts for payee and City records			X		
Post receipts in general ledger			X		
Print a daily deposit report of all receipts		X			
Compare City receipt copies to daily deposit report	X				
Make daily deposits	X				
Maintain grant, license, permit and other records in City Hall files	X				
Prepare and file any grant or other reports related to miscellaneous revenues and receipts	X				

TOWN OF EVERYWHERE
 PROPOSED SEGREGATION OF FINANCIAL-RELATED DUTIES

Duties	City Clerk	Utilities Clerk	Rev/Exp Clerk	City Mgr	CMFO/Recorder
General Ledger Accounting:					
Perform system maintenance, such as fund, account codes	X				
Prepare manual journal entries, as needed	X				
Approve manual journal entries					X
Post journal entries	X				
Reconcile monthly bank statements to book cash balances					X
Print monthly balance sheets and budgetary reports by fund			X		
Review monthly reports to be submitted to the City Council				X	X
Review monthly reports, manual journal entries and investigate any unusual balances					X

APPENDIX "A"

**Separation of Duties for Primary Accounting Functions
Cash Receipts, Cash Disbursements, Payroll**

Two-Person Office

Business Manager

Mail checks
Write checks
Approve payroll

Record accounts receivable entries
Receive cash
Disburse petty cash
Reconcile bank statements
Authorize purchase orders
Authorize check requests

Authorize invoices for payment
Record credits/debits in
accounting records
Record G/L entries

Chief Financial Officer

Approve and Sign checks
Sign employee contracts
Distribute payroll
Process vendor invoices
Complete deposit slips
Reconcile petty cash
Perform interbank transfers

Receive, open and review bank
statements
Review Bank reconciliations

Three-Person Office

Bookkeeper

Record accounts receivable entries
Reconcile petty cash
Write checks
Record general ledger entries
Reconcile bank statements
Process vendor invoices

Record credits/debits in
accounting record

Office Manager

Mail checks
Disburse petty cash
Approve invoices
Authorize purchase orders
Approve payroll
Receive cash
Distribute payroll

Authorize time sheets

Chief Financial Officer

Sign checks
Complete deposit slips
Perform interbank transfers
Sign employee contracts
Receive, open, and review bank statements

Review Bank reconciliations

Four-Person Office

Bookkeeper

Record A/R entries
Reconcile petty cash
Write checks
Record G/L entries
Reconcile bank statements
Record credits/debits in
accounting records

Clerk

Distribute payroll
Receive cash
Disburse petty cash
Authorize POs
Authorize ck requests
Mail checks

Office Manager

Complete deposit slip
Approve invoices
Approve payroll
Process Vendor
Invoices

Chief Financial Officer

Sign checks
Sign employee contracts
Approve time sheets
Perform interbank transfers
Receive, open, & review bank
statements
Review Bank reconciliations